

Management Discussion and Analysis Q1/2020

1. Highlights

	Unit: million Baht	1 st Quarter 2020	1 st Quarter 2019
Performance	Revenues	2,696	3,398
	Sales Volume (k tons)	170	177
	EBITDA	(191)	(87)
	Net Profit (Loss)	(476)	(432)
HRC	HRC Sales (k tons)	170	177
	HRC Production Volume (k tons)	185	139
	HRC Average Selling Price (THB./ton)	15,885	19,160
	HRC Cash Margin (THB./Ton)	590	(58)
	Unit: million Baht	31 March 2020	31 December 2019
Financial Status	Total Liabilities	2,502	2,194
	Total Asset	15,320	15,488
	Total Equity	12,818	13,294

Remark: EBITDA = Net Profit (loss) + Interest + Depreciation.

The Company posted a EBITDA loss of THB 191 million and THB 87 million for the 1st Quarter 2020 and 2019, respectively. During the current Quarter the Company suffered unrealized exchange loss of THB 110 million and loss on devaluation of inventories of THB 45 million compared to unrealized exchange gain of THB 19 million and reversal of loss on devaluation of inventories of THB 122 million during the same period last year.

The Company has recorded a net loss of THB 476 million and THB 432 million for the 1st Quarter 2020 and 2019, respectively.

2. Business Outlook

Total Hot Rolled Steel consumption for the 1st Quarter of 2020 stood 1.56 million MT and decreased by 3.4% compared to same quarter last year. Meanwhile, imports of Hot Rolled Steel decreased by 14% and Domestic Production increased on 11.5% compared to same period last year. To regain the market share and reduce imports, the Company had to resort to very competitive pricing which impacted the EBITDA adversely.

On 11 March 2020, the World Health Organization declared the Coronavirus (“COVID-19”) outbreak as a pandemic which resulted in travel restriction, lockdown and other precautionary measures imposed in various countries including Thailand.

This outbreak has brought significant economic uncertainties in Thailand and markets in which the Company operates. However, the Company is unable to reasonably estimate the financial negative impact of the COVID-19 in the periods going forward as the situation is still evolving. It is, however, certain that Thailand and worldwide measures against spread of the COVID-19 will have adverse effects on the Company’s future revenues, operations and supply chains. The Company is taking several cost saving measures to minimize the negative impact of the COVID-19 pandemic on the Company’s future operations and is hopeful that appropriate measures will also be taken by the Government to support the Thailand Industries.

3. Performance of the Company

Operating Results

The Company reported a net loss of THB 476 million and THB 432 million for the 1st Quarter 2020 and 2019, respectively. This is primarily due to:

- **Revenue from sales and cost of goods sold**

The total sales volumes reduced from last year quarter by 4% and average HRC selling price reduced from last year quarter by 17% mainly due to the continuous decline in global HRC prices and concerns about the growing spread of global epidemic of COVID 2019 towards the end of 1st quarter of 2020. This also resulted resulting in slowing orders from customers due to uncertainties as described above.

- **Administrative expenses**

Administrative expenses for the 1st Quarter 2020 and 2019 amounting to THB 116 million and THB 131 million respectively which is lower from last year quarter by THB 15 million. This is due to the reduction in consultant service expenses as follows:

- 1) Termination of the business advisory and review agreement with the foreign company effective on 1 January 2020 onwards, resulting in reduced consultant service expenses of approximately THB 4.5 million.
- 2) Reduced financial advisory and legal consultant service expenses amounting to THB 5.5 million compared to same period last year.

- **Financial costs**

The financial costs for the 1st Quarter 2020 and 2019 amounted to THB 62 million and THB 127 million, respectively. The decrease of financial costs of THB 66 million mainly resulted from repayment of short-term loan USD 20 million in last year quarter.

- **Net loss from exchange rate**

The Company had recorded loss from exchange rate for the 1st Quarter 2020 amounting to THB 123 million due to weakening of the Thai Baht against the US Dollar.

4. **Statement of financial positions**

- **Total assets**

As of 31 March 2020, the Company has total assets amounting to THB 15,320 million which decreased from the year ended 2019 by THB 168 million. The current assets amounted to THB 1,893 million, increased by 1% from the year ended 2019. Total non-current assets amounted to THB 13,427 which decreased by 1% from the year ended 2019.

- **Total Liabilities**

As of 31 March 2020, the Company has total liability amounting to THB 2,502 million. Total current liabilities amounted to THB 1,541 million and total non-current liabilities amounted to THB 960 million. As compared with the year ended 2019, the total liability increased by THB 308 million or 14%, on account of:

1. Trade accounts payable increased by THB 62 million.
2. Advance received from customer increased by THB 76 million.
3. Long-term loan from other parties increased by THB 89 million due to weakening of Thai Baht.
4. Provision increased by THB 39 million.
5. Other liabilities increased by THB 42 million.

- **Total equity**

As of 31 March 2020, the Company has total equity of THB 12,818 million which decreased by THB 476 million or 4% from year ended 2019 due to net loss for this quarter of THB 476 million.

Appendix

Table 4: Summary of Financial Results

Unit : Million Baht	1st Quarter 2020	1st Quarter 2019	% Variance
Income			
Revenue from sale of goods	2,696	3,398	(21%)
Net foreign exchange gains	0	99	(100%)
(Reversal of) loss on confirmed purchase orders for undelivered raw material	0	37	(100%)
Other income	13	38	(66%)
Total income	2,709	3,573	(24%)
Expenses			
Cost of sale - Cost of goods sold	2,796	3,605	22%
- idle costs	0	181	100%
- (Reverse of) loss on devaluation of inventories	6	(85)	(107%)
Total cost of sale	2,801	3,701	24%
Selling expenses	43	45	5%
Administrative expenses	116	131	11%
Loss on confirmed purchase orders for undelivered raw mate	39	0	(100%)
Net foreign exchange loss	123	0	(100%)
Finance costs	62	127	52%
Total expenses	3,185	4,005	20%
Profit (loss) for the quarter	(476)	(432)	10%
Basic profit (loss) per share (in Baht)	(0.019)	(0.031)	(40%)

Table 5: Condensed Statement of Financial Position

Unit : Million Baht	31 March 2020	31 December 2019	% Variance
Assets			
Current assets			
Cash and cash equivalents	314	424	(26%)
Trade accounts receivable	45	6	633%
Inventories	1,388	1,367	2%
Other current assets	<u>146</u>	<u>85</u>	<u>72%</u>
Total current assets	<u>1,893</u>	<u>1,882</u>	<u>1%</u>
Non-current assets			
Advance payment for purchase of property, plant and equipment	210	210	0%
Property, plant and equipment	12,882	13,049	(1%)
Intangible assets	8	6	16%
Other non-current assets	<u>327</u>	<u>340</u>	<u>(4%)</u>
Total non-current assets	<u>13,427</u>	<u>13,606</u>	<u>(1%)</u>
Total assets	<u>15,320</u>	<u>15,488</u>	<u>(1%)</u>

Table 5: Condensed Statement of Financial Position

Unit : Million Baht	31 March 2020	31 December 2019	% Increase (Decrease)
Liabilities and equity			
Current liabilities			
Trade accounts payable	395	333	(19%)
Other payables and accrued expenses	353	340	(4%)
Advance from customers	96	20	(386%)
Accrued interest expenses	148	137	(8%)
Liabilities from terminated rehabilitation plan	177	170	(4%)
Current portion of long-term loan from related party	290	0	(100%)
Current portion of liabilities lease	5	0	1086%
Provision	58	19	(205%)
Other current liabilities	18	18	(3%)
Total current liabilities	1,541	1,038	(49%)
Non-current liabilities			
Trade accounts payable			
Long-term loan from related parties	847	1,049	19%
Liabilities lease	5	1	(391%)
Employee benefit obligations	108	106	(2%)
Total non-current liabilities	960	1,156	17%
Total liabilities	2,502	2,194	14%
Total equity	12,818	13,294	(4%)
Total liabilities and equity	15,320	15,488	(1%)

Table 6: Condensed Statement of Cash Flow

Unit : Million Baht

Jan - Mar 2020

Cash flows from operating activities

Net profit (Loss) for the period	(476)
Adjustments for	
Depreciation and amortization	223
Work roll amortisation	21
Finance costs	62
Unrealised gain on foreign exchange	108
(Reversal of) loss on devaluation of inventories	6
(Reversal of) loss on confirmed purchase orders of undelivered of raw material	39
Employee benefit expenses	<u>3</u>
	(14)
<i>Changes in operating assets and liabilities</i>	
Trade accounts receivable	(39)
Inventories	(27)
Other current assets	(61)
Other non-current assets	(8)
Trade accounts payable	53
Advances received from customers	76
Other payables and accrued expenses	6
Other current liabilities	<u>(0)</u>
Net cash from (used in) operating activities	<u>(15)</u>

Table 6: Condensed Statement of Cash Flow

Unit : Million Baht	Jan - Mar 2020
Cash flows from investing activities	
Purchase of property, plant and equipment	(41)
Purchase of intangible assets	(2)
Net cash from (used in) investing activities	(42)
Cash flows from financing activities	
Repayment of liabilities under rehabilitation plan	(1)
Repayment of long-term loan from related party	(1)
Finance costs paid	(52)
Net cash from (used in) financing activities	(54)
Net increase (decrease) in cash and cash equivalents	(111)
Cash and cash equivalents at 1 January 2020	424
Effect of exchange rate changes on balances held in foreign currencies	1
Cash and cash equivalents at 31 March 2020	314

Additional cash flow information :

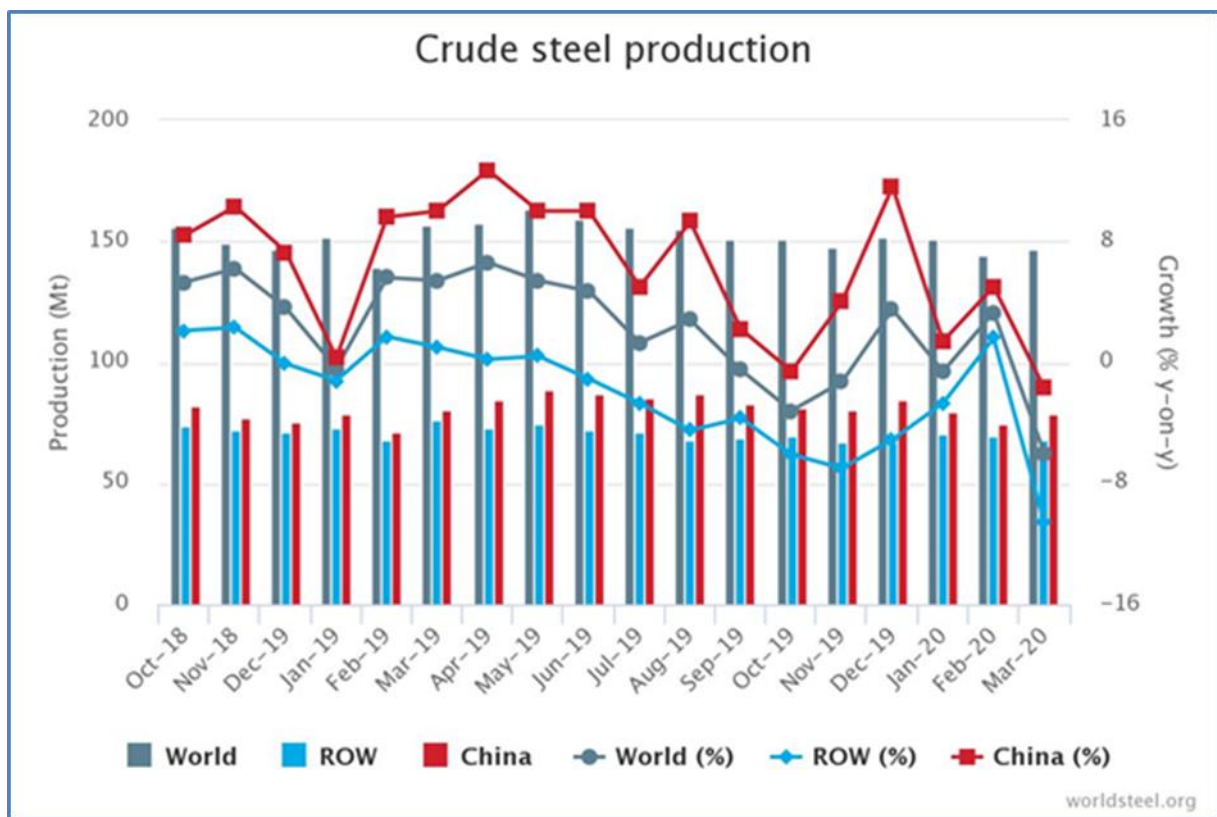
1) Property, plant and equipment increased by means of :	
- Lease liabilities	10
- Other account payables - net	5
- Cash payments	41
Total	55

5. Industry Overview and Outlook

Overview of World Steel Industry

According to the World Steel Association’s report on world crude steel production was 443.0 million tons in the first three months of 2020, significant decrease by 1.4% compared to the same period in 2019. The region with most production was Asia (including China, but not including the Middle East) 315.2 million tons, a decrease by 0.3% over the first three months of 2019. The second most producing region was the European Union (EU), with 38.3 million tons, decreased 10.0% and North America’s crude steel production in the first quarter of 2020 was 29.5 million tons, a decrease of 4.0% compared to the same period of 2019.

Chart of world crude steel production monthly, ending 31 March 2020



Source: World Steel Association

Remarks: For antitrust reasons, worldsteel no longer produces a monthly global capacity utilisation ratio. Information on capacity can be found on the OECD website.

In March 2020, China produced crude steel at 79.0 million tons down by 1.7%, India produced crude steel at 8.7 million tons decreased by 13.9%, Japan at 8.2 million tons down by 9.7% and South Korea at 5.8 million tons down 7.9% compared to March 2019.

In the EU, Germany produced crude steel at 2.9 million tons down by 20.9%, Italy’s crude steel production was 1.4 million tons, down by 40.2%, France produced 1.2 million tons of crude steel, a decrease of 13.2% and Spain produced 1.2 million tons, a decrease of 14.6% respectively, compared to March 2019.

Turkey’s crude steel production for March 2020 was 3.1 million tons, an increase of 4.1% compared to March 2019.

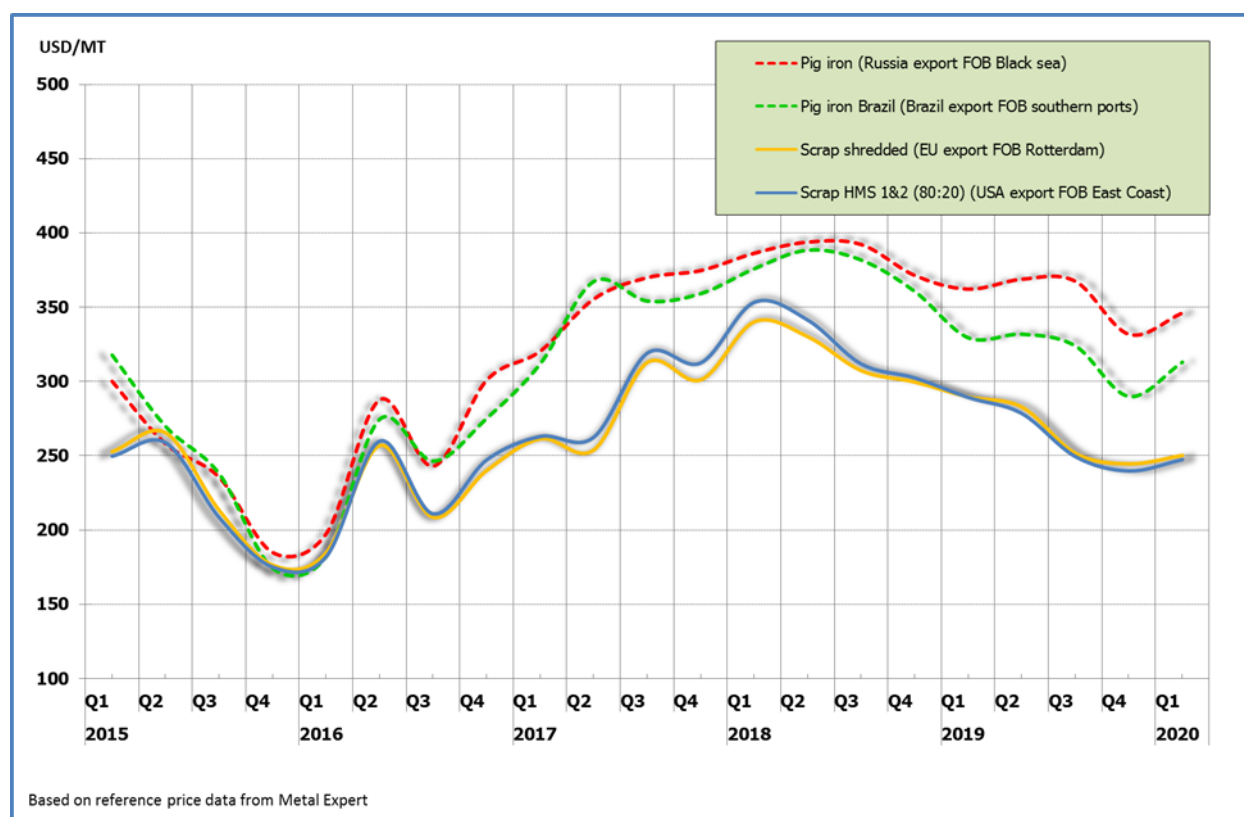
The US produced 7.2 million tons of crude steel for March 2020, a decrease of 6.0% on March 2019.

Brazil’s crude steel production for March 2020 was 2.6 million tons, down by 8.2% on March 2019.

The main raw materials (Pig iron, shredded scrap) the price movement of the main raw materials, i.e. scraps and pig iron, had more fluctuated since the first quarter of 2016, by increasing in the first and the second quarters of 2016 and then decreased in the third quarter of 2016 but then turn back increasing continuously until the first quarter of 2018 and decreased again in second quarter of 2018 to fourth quarter of 2019 after that slightly increased in the first quarter of 2020. Thus it will become more challenging for the global steel industry participants in all the regions. Careful estimation for raw material purchasing and production cost management is seriously needed in order to cope with the more dynamic business environment.

The raw material reference prices on the world market are that the HMS 1&2 (80:20 ratio) scrap USA export price of the first quarter of 2020 was averaged at USD 248/mt. FOB, increased from the previous quarter at USD 240/mt. FOB, and pig iron Russia export price of the first quarter of 2020 averaged at USD 346/mt. FOB, rose from USD 332/mt. compared to the previous quarter.

Chart of raw material reference prices on world market for Q1/2015 – Q1/2020

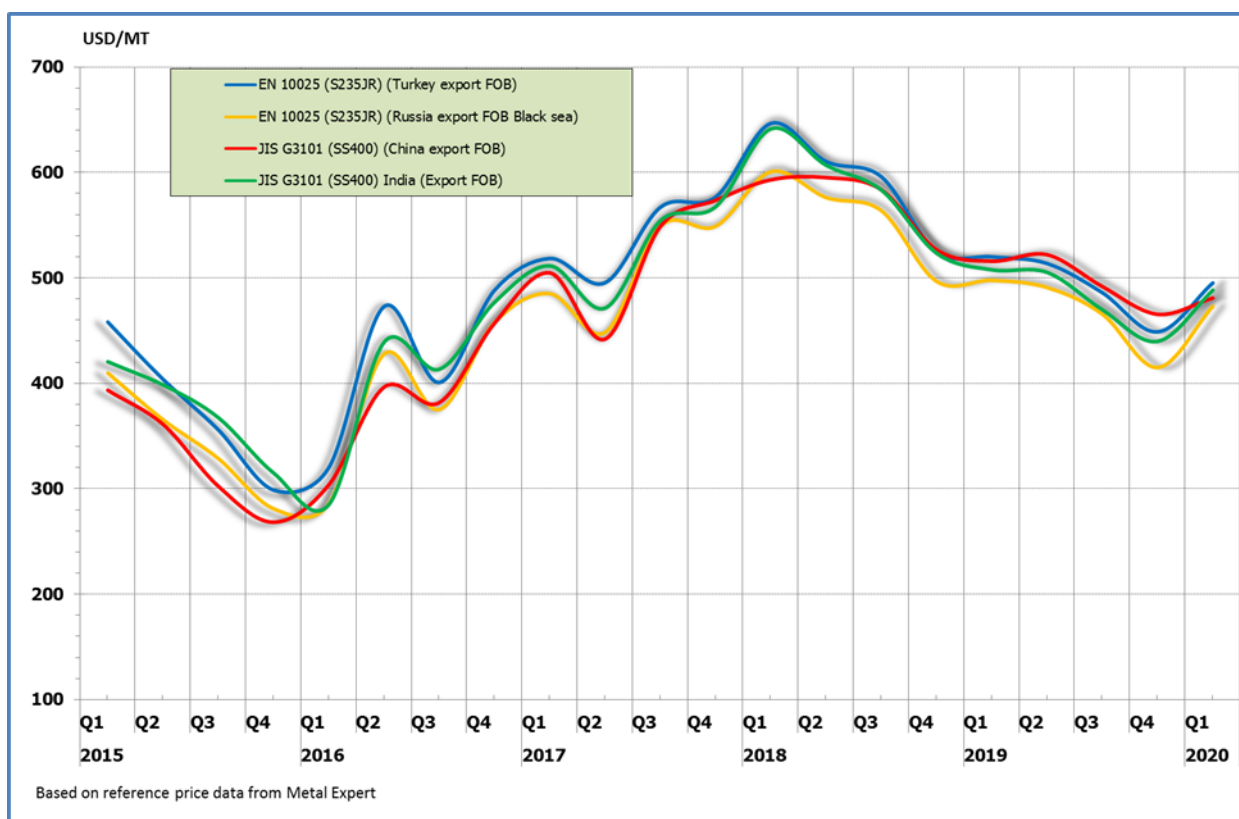


Processed price data from: Metal Expert

Hot Rolled the prices for hot-rolled coil on the world market during the first quarter of 2016 to first quarter of 2019 had more fluctuated by moving from the lowest point in the first quarter of 2016 then rebounded in the second quarter, and fell again in the third quarter and then turn back increasing continuously from fourth quarter of 2016 to first quarter of 2017 and decreased again in the second quarter then rebounded quickly until first quarter of 2018 and dropped continuously from second quarter of 2018 to fourth quarter of 2019 and then started to increase in first quarter of 2020 respectively.

The reference prices for hot-rolled coil on the world market are that China export price average for first quarter of 2020 was USD 482/mt, FOB, increased from the previous quarter at USD 466/mt. Meanwhile, Russia export price average was increased from USD 415/mt. FOB, to 473/mt. Turkey export price average was increased from USD 449/mt, FOB, to 495/mt. and India export price average was also increased from USD 440/mt. FOB, to 488/mt. in first quarter of 2020.

Chart of hot-rolled coil reference prices on world market for Q1/2015 – Q1/2020



Processed price data from: Metal Expert

Overview of Thai Steel Industry

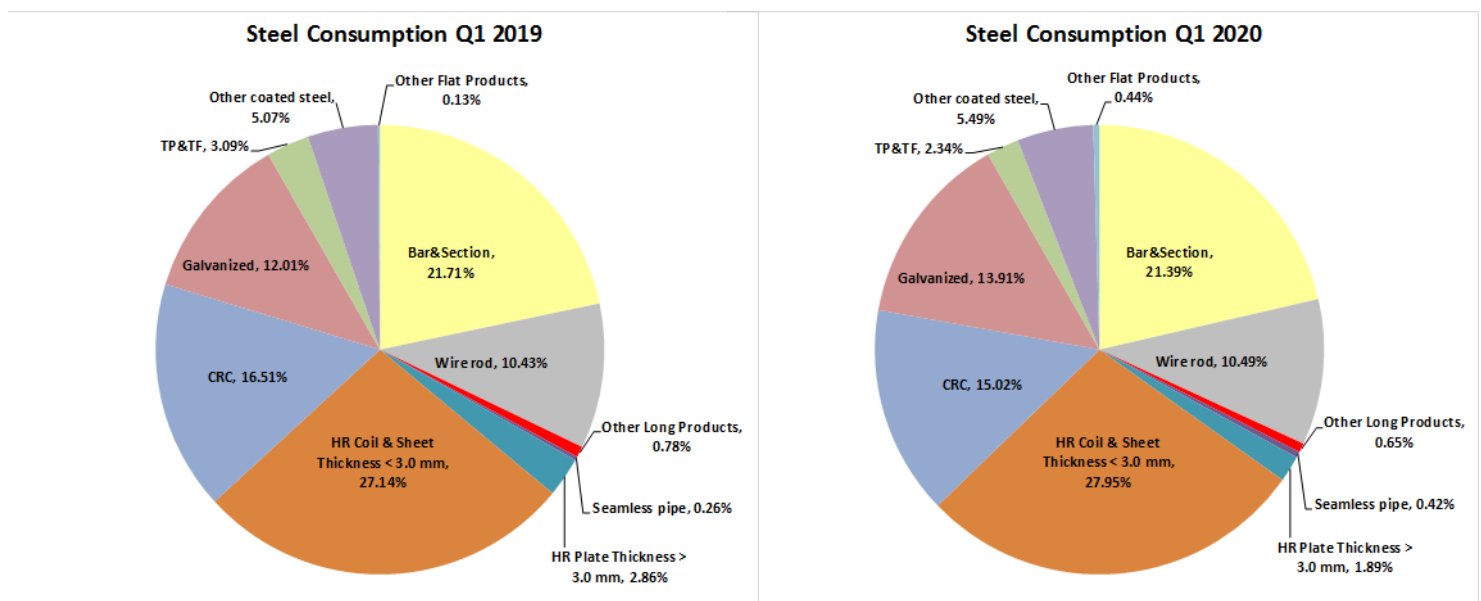
ISIT had reported the domestic steel-production Q1/2020 was at 2.02 million metric tons, increasing 0.95% compared to the same period of previous year consisting of the long finished steel production of 1.28 million metric tons, decreasing 4.26% and the flat finished steel production of 0.735 million metric tons, increasing 11.52% compared to the same period of previous year.

The consumption of finished steel products in Thailand in Q1/2020 was at 4.40 million metric tons, decreasing 1.27% compared to the same period of previous year consisting of the long finished steel consumption at 1.74 million metric tons, decreasing 3.88% and the flat finished steel consumption

at 2.66 million metric tons, increasing 0.52% resulting from the demand of Coated Galvanized steel which increasing compared to the same period of previous year.

Table: The production and the domestic demand of Finished Steel in Q1 2019 and 2020

Total Apparent Finished Steel (Unit : Tons)	Quarter 1/2019	Quarter 1/2020	% Change
Production	1,998,519	2,017,445	0.95%
Import	2,856,359	2,680,405	-6.16%
Export	401,798	301,219	-25.03%
Consumption	4,453,080	4,396,631	-1.27%



The imported of finished steel in Thailand in Q1/2020 was at 2.68 million metric tons, decreasing 6.16% compared to the same period of previous year. The highest import quantity was Hot Rolled Steel at 0.85 million metric tons, decreasing 13.66% compared to the same period of previous year. The second highest import quantity was Coated Galvanized steel at 0.501 million metric tons and Cold Rolled steel at 0.351 million metric tons respectively.

The export of finished steel in Thailand in Q1/2020 was at 0.301 million metric tons, decreasing 25.03% compared to the same period of previous year. The highest export quantity was structural steel at 56.5 thousand metric tons. The export of deformed bars for construction in Q1/2020 was at 46.1 thousand metric tons.

Overview of Hot Rolled Steel in Thailand

The Hot Rolled Steel production in Q1/2020 was at 0.735 million metric tons, increasing 11.52% consisting of Hot Roll Coil and Sheet (thin gauge) at 0.707 million metric tons, increasing 14.57% and Thick gauge (Plate) at 28.2 thousand metric tons, decreasing 33.16% compared to the same period of previous year.

The Hot Rolled Steel consumption in Q1/2020 was at 1.51 million metric tons, decreasing 3.44% consisting of Hot Roll Coil and Sheet (thin gauge) at 1.41 million metric tons, increasing 0.20% and thick gauge (Plate) at 95.8 thousand metric tons, decreasing 37.12% compared to the same period of previous year.

Table: The production and the domestic demand of the Hot Roll Flat Steel for Q1 2019 and 2020

Total Hot Roll (Unit : Tons) (Excluding Stainless Steel)	Quarter 1/2019	Quarter 1/2020	% Change
Production	659,249	735,194	11.52%
Import	904,693	778,501	-13.95%
Export	2,595	6,021	132.02%
Consumption	1,561,347	1,507,674	-3.44%

Total Hot Roll Plate, Thickness > 3 mm. (Unit : Tons) (Excluding Stainless Steel)	Quarter 1/2019	Quarter 1/2020	% Change
Production	42,139	28,167	-33.16%
Import	111,184	68,351	-38.52%
Export	995	730	-26.63%
Consumption	152,328	95,788	-37.12%

Total Hot Roll Coil & Sheet Thickness < 3 mm. (Unit : Tons) (Excluding Stainless Steel)	Quarter 1/2019	Quarter 1/2020	% Change
Production	617,110	707,027	14.57%
Import	793,509	710,150	-10.51%
Export	1,600	5,291	230.69%
Consumption	1,409,019	1,411,886	0.20%

Source : Iron and Steel Institute of Thailand, by Steel Business Intelligence

The import of Hot Rolled Steel in Q1/2020 had decreased of 13.95% at 0.78 million metric tons consisting of Hot Roll Coil and Sheet (thin gauge) at 0.710 million metric tons, decreasing of 10.51% and at 68.35 thousand metric tons, decreasing 38.52% for Plate (thick gauge) compared to the same period of previous year.

The export of Hot Rolled Steel in Thailand in Q1/2020 was at 6.02 thousand metric tons, increasing 132.02% consisting of Hot Roll Coil and Sheet (thin gauge) at 5.29 thousand metric tons, increasing of 230.69% and at 730 metric tons, decreasing 26.63% for Plate (thick gauge) compared to the same period of previous year.